

110TH CONGRESS  
1ST SESSION

# S. 1423

To extend tax relief to the residents and businesses of an area with respect to which a major disaster has been declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (FEMA–1699–DR) by reason of severe storms and tornados beginning on May 4, 2007, and determined by the President to warrant individual or public assistance from the Federal Government under such Act.

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## IN THE SENATE OF THE UNITED STATES

MAY 17, 2007

Mr. ROBERTS (for himself and Mr. BROWNBACK) introduced the following bill;  
which was read twice and referred to the Committee on Finance

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## A BILL

To extend tax relief to the residents and businesses of an area with respect to which a major disaster has been declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (FEMA–1699–DR) by reason of severe storms and tornados beginning on May 4, 2007, and determined by the President to warrant individual or public assistance from the Federal Government under such Act.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; ETC.**

2 (a) SHORT TITLE.—This Act may be cited as “Kan-  
3 sas Disaster Tax Relief Assistance Act”.

4 (b) AMENDMENT OF 1986 CODE.—Except as other-  
5 wise expressly provided, whenever in this Act an amend-  
6 ment or repeal is expressed in terms of an amendment  
7 to, or repeal of, a section or other provision, the reference  
8 shall be considered to be made to a section or other provi-  
9 sion of the Internal Revenue Code of 1986.

10 (c) TABLE OF CONTENTS.—The table of contents for  
11 this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—TEMPORARY TAX RELIEF

Sec. 101. Temporary tax relief.

TITLE II—NEW HOMESTEAD OPPORTUNITIES PILOT PROJECT

Sec. 201. Loans for leadership initiative.

Sec. 202. Credit for certain rural homebuyers.

Sec. 203. Capital loss deduction allowed with respect to sale or exchange of  
principal residence in certain rural areas.

Sec. 204. Individual Homestead accounts.

TITLE III—INCENTIVES FOR MAIN STREET BUSINESSES

Sec. 301. Rural investment tax credit.

Sec. 302. Qualified rural small business investment credit.

Sec. 303. Accelerated depreciation for rural investment property.

12 **TITLE I—TEMPORARY TAX**  
13 **RELIEF**

14 **SEC. 101. TEMPORARY TAX RELIEF.**

15 (a) IN GENERAL.—Subchapter Y (relating to short-  
16 term regional benefits) is amended by adding at the end  
17 the following new part:

1 **“PART III—TAX BENEFITS FOR OTHER DISASTER**  
 2 **AREAS**

“Sec. 1400U. Tax benefits for Kiowa County, Kansas and surrounding area.

3 **“SEC. 1400U. TAX BENEFITS FOR KIOWA COUNTY, KANSAS**  
 4 **AND SURROUNDING AREA.**

5 “The following provisions of this subchapter shall  
 6 apply, in addition to the areas described in such provi-  
 7 sions, to an area with respect to which a major disaster  
 8 has been declared by the President under section 401 of  
 9 the Robert T. Stafford Disaster Relief and Emergency As-  
 10 sistance Act (FEMA–1699–DR) by reason of severe  
 11 storms and tornados beginning on May 4, 2007, and de-  
 12 termined by the President to warrant individual or public  
 13 assistance from the Federal Government under such Act:

14 “(1) SUSPENSION OF CERTAIN LIMITATIONS ON  
 15 PERSONAL CASUALTY LOSSES.—Section  
 16 1400S(b)(1), by substituting ‘May 4, 2007’ for ‘Au-  
 17 gust 25, 2005’.

18 “(2) EXTENSION OF REPLACEMENT PERIOD  
 19 FOR NONRECOGNITION OF GAIN.—Section 1400L(g),  
 20 by substituting ‘storms on May 4, 2007’ for ‘ter-  
 21 rorist attacks on September 11, 2001’.

22 “(3) EMPLOYEE RETENTION CREDIT FOR EM-  
 23 PLOYERS AFFECTED BY MAY 4 STORMS.—Section  
 24 1400R(a)—

1 “(A) by substituting ‘May 4, 2007’ for  
2 ‘August 28, 2005’ each place it appears,

3 “(B) by substituting ‘January 1, 2008’ for  
4 ‘January 1, 2006’ both places it appears, and

5 “(C) only with respect to eligible employers  
6 who employed an average of not more than 200  
7 employees on business days during the taxable  
8 year before May 4, 2007.

9 “(4) SPECIAL ALLOWANCE FOR CERTAIN PROP-  
10 ERTY ACQUIRED ON OR AFTER MAY 5, 2007.—Section  
11 1400N(d)—

12 “(A) by substituting ‘qualified Recovery  
13 Assistance property’ for ‘qualified Gulf Oppor-  
14 tunity Zone property’ each place it appears,

15 “(B) by substituting ‘May 5, 2007’ for  
16 ‘August 28, 2005’ each place it appears,

17 “(C) by substituting ‘December 31, 2008’  
18 for ‘December 31, 2007’ in paragraph  
19 (2)(A)(v),

20 “(D) by substituting ‘December 31, 2009’  
21 for ‘December 31, 2008’ in paragraph  
22 (2)(A)(v),

23 “(E) by substituting ‘May 4, 2007’ for  
24 ‘August 27, 2005’ in paragraph (3)(A),

1           “(F) by substituting ‘January 1, 2009’ for  
2           ‘January 1, 2008’ in paragraph (3)(B), and

3           “(G) determined without regard to para-  
4           graph (6) thereof.

5           “(5) INCREASE IN EXPENSING UNDER SECTION  
6           179.—Section 1400N(e), by substituting ‘qualified  
7           section 179 Recovery Assistance property’ for ‘quali-  
8           fied section 179 Gulf Opportunity Zone property’  
9           each place it appears.

10          “(6) EXPENSING FOR CERTAIN DEMOLITION  
11          AND CLEAN-UP COSTS.—Section 1400N(f)—

12               “(A) by substituting ‘qualified Recovery  
13               Assistance clean-up cost’ for ‘qualified Gulf Op-  
14               portunity Zone clean-up cost’ each place it ap-  
15               pears, and

16               “(B) by substituting ‘beginning on May 4,  
17               2007, and ending on December 31, 2009’ for  
18               ‘beginning on August 28, 2005, and ending on  
19               December 31, 2007’ in paragraph (2) thereof.

20          “(7) TREATMENT OF PUBLIC UTILITY PROP-  
21          ERTY DISASTER LOSSES.—Section 1400N(o).

22          “(8) TREATMENT OF NET OPERATING LOSSES  
23          ATTRIBUTABLE TO STORM LOSSES.—Section  
24          1400N(k)—

1           “(A) by substituting ‘qualified Recovery  
2           Assistance loss’ for ‘qualified Gulf Opportunity  
3           Zone loss’ each place it appears,

4           “(B) by substituting ‘after May 3, 2007,  
5           and before on January 1, 2010’ for ‘after Au-  
6           gust 27, 2005, and before January 1, 2008’  
7           each place it appears,

8           “(C) by substituting ‘May 4, 2007’ for  
9           ‘August 28, 2005’ in paragraph (2)(B)(ii)(I)  
10          thereof,

11          “(D) by substituting ‘qualified Recovery  
12          Assistance property’ for ‘qualified Gulf Oppor-  
13          tunity Zone property’ in paragraph (2)(B)(iv)  
14          thereof, and

15          “(E) by substituting ‘qualified Recovery  
16          Assistance casualty loss’ for ‘qualified Gulf Op-  
17          portunity Zone casualty loss’ each place it ap-  
18          pears.

19          “(9) TREATMENT OF REPRESENTATIONS RE-  
20          GARDING INCOME ELIGIBILITY FOR PURPOSES OF  
21          QUALIFIED RENTAL PROJECT REQUIREMENTS.—Sec-  
22          tion 1400N(n).

23          “(10) SPECIAL RULES FOR USE OF RETIRE-  
24          MENT FUNDS.—Section 1400Q—

1           “(A) by substituting ‘qualified Recovery  
2           Assistance distribution’ for ‘qualified hurricane  
3           distribution’ each place it appears,

4           “(B) by substituting ‘on or after May 4,  
5           2007, and before January 1, 2009’ for ‘on or  
6           after August 25, 2005, and before January 1,  
7           2007’ in subsection (a)(4)(A)(i),

8           “(C) by substituting ‘qualified storm dis-  
9           tribution’ for ‘qualified Katrina distribution’  
10          each place it appears,

11          “(D) by substituting ‘after November 4,  
12          2006, and before May 5, 2007’ for ‘after Feb-  
13          ruary 28, 2005, and before August 29, 2005’ in  
14          subsection (b)(2)(B)(ii),

15          “(E) by substituting ‘beginning on May 4,  
16          2007, and ending on November 5, 2007’ for  
17          ‘beginning on August 25, 2005, and ending on  
18          February 28, 2006’ in subsection (b)(3)(A),

19          “(F) by substituting ‘qualified storm indi-  
20          vidual’ for ‘qualified Hurricane Katrina indi-  
21          vidual’ each place it appears,

22          “(G) by substituting ‘December 31, 2007’  
23          for ‘December 31, 2006’ in subsection  
24          (c)(2)(A),

1 “(H) by substituting ‘beginning on June 4,  
 2 2007, and ending on December 31, 2007’ for  
 3 ‘beginning on September 24, 2005, and ending  
 4 on December 31, 2006’ in subsection  
 5 (c)(4)(A)(i),

6 “(I) by substituting ‘May 4, 2007’ for ‘Au-  
 7 gust 25, 2005’ in subsection (c)(4)(A)(ii), and

8 “(J) by substituting ‘January 1, 2008’ for  
 9 ‘January 1, 2007’ in subsection (d)(2)(A)(ii).”.

10 (b) CLERICAL AMENDMENT.—The table of parts for  
 11 subchapter Y is amended by adding at the end the fol-  
 12 lowing new item:

“PART III. TAX BENEFITS FOR OTHER DISASTER AREAS”.

13 **TITLE II—NEW HOMESTEAD OP-**  
 14 **PORTUNITIES PILOT**  
 15 **PROJECT**

16 **SEC. 201. LOANS FOR LEADERSHIP INITIATIVE.**

17 (a) DEFINITIONS.—In this section:

18 (1) DEGREE.—The term “degree” means an as-  
 19 sociate’s or bachelor’s degree awarded by an institu-  
 20 tion of higher education.

21 (2) INSTITUTION OF HIGHER EDUCATION.—The  
 22 term “institution of higher education” has the  
 23 meaning given the term in section 101 of the Higher  
 24 Education Act of 1965 (20 U.S.C. 1001).



1           (3) QUALIFYING AREA.—The term “qualifying  
2           area” means an area with respect to which a major  
3           disaster has been declared by the President under  
4           section 401 of the Robert T. Stafford Disaster Relief  
5           and Emergency Assistance Act (FEMA–1699–DR)  
6           by reason of severe storms and tornados beginning  
7           on May 4, 2007, and determined by the President  
8           to warrant individual or public assistance from the  
9           Federal Government under such Act.

10          (4) SECRETARY.—The term “Secretary” means  
11          the Secretary of Education.

12          (b) PROGRAM.—

13               (1) IN GENERAL.—The Secretary shall carry  
14               out a program of assuming the obligation to repay,  
15               pursuant to subsection (c), a loan made, insured, or  
16               guaranteed under part B, D, or E of title IV of the  
17               Higher Education Act of 1965 (20 U.S.C. 1071 et  
18               seq., 20 U.S.C. 1087a et seq., and 20 U.S.C.  
19               1087aa et seq.), excluding loans made under section  
20               428B of such Act or comparable loans made under  
21               part D of such Act, for any borrower who—

22                       (A) completes a degree;

23                       (B) resides in a qualifying area; and

24                       (C) is employed in a qualifying area.

1           (2) REGULATIONS.—The Secretary is author-  
 2           ized to prescribe such regulations as may be nec-  
 3           essary to carry out the provisions of this section.

4           (c) LOAN REPAYMENT.—

5           (1) IN GENERAL.—The Secretary shall assume  
 6           the obligation to repay, for each of the first 5 years  
 7           of the residency and employment described in sub-  
 8           paragraphs (B) and (C) of subsection (b)(1) that  
 9           occur after the date of enactment of this section, 10  
 10          percent of the total amount of all loans made to a  
 11          student under the provisions of the Higher Edu-  
 12          cation Act of 1965 as described in subsection (b)(1),  
 13          up to a maximum amount of \$2,000 each year.

14          (2) CONSTRUCTION.—Nothing in this section  
 15          shall be construed to authorize the refunding of any  
 16          repayment of a loan made under part B, D, or E  
 17          of title IV of the Higher Education Act of 1965.

18          (3) INTEREST.—If a portion of a loan is repaid  
 19          by the Secretary under this section for any year, the  
 20          proportionate amount of interest on such loan which  
 21          accrues for such year shall be repaid by the Sec-  
 22          retary so long as the total amount repaid by the  
 23          Secretary in any 1 year does not exceed \$2,000.

24          (d) REPAYMENT TO ELIGIBLE LENDERS.—The Sec-  
 25          retary shall pay to each eligible lender or holder for each

1 fiscal year an amount equal to the aggregate amount of  
2 loans which are subject to repayment pursuant to this sec-  
3 tion for such year.

4 (e) APPLICATION FOR REPAYMENT.—

5 (1) IN GENERAL.—An eligible borrower desiring  
6 loan repayment under this section shall submit a  
7 complete and accurate application to the Secretary  
8 at such time, in such manner, and containing such  
9 information as the Secretary may require.

10 (2) CONDITIONS.—An eligible borrower may  
11 apply for loan repayment under this section after  
12 completing each year of qualifying residency and em-  
13 ployment. The eligible borrower shall receive forbear-  
14 ance while engaged in qualifying residency and em-  
15 ployment unless the borrower is in deferment while  
16 so engaged.

17 (f) DEFINITION OF ELIGIBLE BORROWER.—In this  
18 section the term “eligible borrower” means any borrower  
19 who is not in default on any of the borrower’s student  
20 loans under part B, D, or E of title IV of the Higher  
21 Education Act of 1965.

22 (g) AUTHORIZATION OF APPROPRIATIONS.—

23 (1) LOAN REPAYMENT.—There are authorized  
24 to be appropriated to carry out this section such  
25 sums as may be necessary.

1           (2) PERKINS LOAN FUNDS.—There are author-  
 2           ized to be appropriated such sums as may be nec-  
 3           essary for Federal capital contributions to student  
 4           loan funds established under part E of title IV of  
 5           the Higher Education Act of 1965.

6           (h) REPAYMENT EXCLUDED FROM GROSS IN-  
 7           COME.—Section 108(f)(1) (relating to student loans) is  
 8           amended by inserting “or pursuant to section 201 of the  
 9           Disaster Tax Relief Act of 2007” after “employers”.

10          (i) APPLICATION OF SECTION.—This section shall  
 11          apply to applications for repayment made after the date  
 12          of the enactment of this Act and before the date which  
 13          is 5 years after such date of enactment.

14       **SEC. 202. CREDIT FOR CERTAIN RURAL HOMEBUYERS.**

15          (a) IN GENERAL.—Subpart A of part IV of sub-  
 16          chapter A of chapter 1 (relating to nonrefundable personal  
 17          credits) is amended by inserting before section 26 the fol-  
 18          lowing new section:

19       **“SEC. 25E. PURCHASE OF RESIDENCES BY CERTAIN RURAL**  
 20               **HOMEBUYERS.**

21          “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 22          dividual who purchases a qualified residence in a quali-  
 23          fying area during any taxable year, there shall be allowed  
 24          as a credit against the tax imposed by this chapter for  
 25          the taxable year an amount equal to the lesser of—

1           “(1) 10 percent of the purchase price of the  
2       residence, or

3           “(2) \$5,000.

4       “(b) LIMITATIONS.—

5           “(1) LIMITATION BASED ON AMOUNT OF  
6       TAX.—The credit allowed under subsection (a) for  
7       any taxable year shall not exceed the excess of—

8           “(A) the sum of the regular tax liability  
9           (as defined in section 26(b)) plus the tax im-  
10          posed by section 55, over

11          “(B) the sum of the credits allowable  
12          under this subpart (other than this section and  
13          section 23) and section 27 for the taxable year.

14       “(2) MARRIED INDIVIDUALS FILING JOINTLY.—

15       In the case of a husband and wife who file a joint  
16       return, the credit under this section is allowable only  
17       if the residence is a qualified residence with respect  
18       to both the husband and wife, and the amount speci-  
19       fied under subsection (a)(2) shall apply to the joint  
20       return.

21       “(3) MARRIED INDIVIDUALS FILING SEPA-  
22       RATELY.—In the case of a married individual filing  
23       a separate return, subsection (a)(2) shall be applied  
24       by substituting ‘\$2,500’ for ‘\$5,000’.

1           “(4) OTHER TAXPAYERS.—If 2 or more individ-  
2           uals who are not married purchase a qualified resi-  
3           dence, the amount of the credit allowed under sub-  
4           section (a) shall be allocated among such individuals  
5           in such manner as the Secretary may prescribe, ex-  
6           cept that the total amount of the credits allowed to  
7           all such individuals shall not exceed \$5,000.

8           “(c) DEFINITIONS.—For purposes of this section—

9           “(1) QUALIFIED RESIDENCE.—The term ‘quali-  
10          fied residence’ has the same meaning as when used  
11          in section 163(h).

12          “(2) QUALIFYING AREA.—The term ‘qualifying  
13          area’ means an area with respect to which a major  
14          disaster has been declared by the President under  
15          section 401 of the Robert T. Stafford Disaster Relief  
16          and Emergency Assistance Act (FEMA–1699–DR)  
17          by reason of severe storms and tornados beginning  
18          on May 4, 2007, and determined by the President  
19          to warrant individual or public assistance from the  
20          Federal Government under such Act.

21          “(3) PURCHASE AND PURCHASE PRICE.—The  
22          terms ‘purchase’ and ‘purchase price’ have the  
23          meanings provided by section 1400C(e).

24          “(d) CARRYFORWARD OF UNUSED CREDIT.—If the  
25          credit allowable under subsection (a) for any taxable year

1 exceeds the limitation imposed by subsection (b)(1) for  
 2 such taxable year reduced by the sum of the credits allow-  
 3 able under this subpart (other than this section and sec-  
 4 tion 23), such excess shall be carried to the succeeding  
 5 taxable year and added to the credit allowable under sub-  
 6 section (a) for such taxable year.

7       “(e) REPORTING.—If the Secretary requires informa-  
 8 tion reporting under section 6045 by a person described  
 9 in subsection (e)(2) thereof to verify the eligibility of tax-  
 10 payers for the credit allowable by this section, the excep-  
 11 tion provided by section 6045(e)(5) shall not apply.

12       “(f) RECAPTURE OF CREDIT IN CASE OF CERTAIN  
 13 SALES.—

14               “(1) IN GENERAL.—Except as provided in para-  
 15 graph (5), if the taxpayer disposes of a qualified res-  
 16 idence with respect to the purchase of which a credit  
 17 was allowed under subsection (a) at any time within  
 18 5 years after the date the taxpayer acquired the  
 19 property, then the tax imposed under this chapter  
 20 for the taxable year in which the disposition occurs  
 21 is increased by the credit recapture amount.

22               “(2) CREDIT RECAPTURE AMOUNT.—For pur-  
 23 poses of paragraph (1), the credit recapture amount  
 24 is an amount equal to the sum of—

1           “(A) the applicable recapture percentage of  
2           the amount of the credit allowed to the tax-  
3           payer under this section, plus

4           “(B) interest at the overpayment rate es-  
5           tablished under section 6621 on the amount de-  
6           termined under subparagraph (A) for each  
7           prior taxable year for the period beginning on  
8           the due date for filing the return for the prior  
9           taxable year involved.

10          No deduction shall be allowed under this chapter for  
11          interest described in subparagraph (B).

12           “(3) APPLICABLE RECAPTURE PERCENTAGE.—

13           “(A) IN GENERAL.—For purposes of this  
14           subsection, the applicable recapture percentage  
15           shall be determined from the following table:

<b>“If the sale occurs in:</b>	<b>The applicable recapture percentage is:</b>
Year 1 .....	100
Year 2 .....	80
Year 3 .....	60
Year 4 .....	40
Year 5 .....	20
Years 6 and thereafter .....	0.

16           “(B) YEARS.—For purposes of subpara-  
17           graph (A), year 1 shall begin on the first day  
18           of the taxable year in which the purchase of the  
19           qualified residence described in subsection (a)  
20           occurs.



1           “(4) NO CREDITS AGAINST TAX.—Any increase  
 2           in tax under this subsection shall not be treated as  
 3           a tax imposed by this chapter for purposes of deter-  
 4           mining the amount of any credit under this chapter  
 5           or for purposes of section 55.

6           “(5) DEATH OF OWNER; CASUALTY LOSS; IN-  
 7           VOLUNTARY CONVERSION; ETC.—The provisions of  
 8           paragraph (1) do not apply to—

9                   “(A) a disposition of a qualified residence  
 10                  made on account of the death of any individual  
 11                  having a legal or equitable interest therein oc-  
 12                  curring during the 5-year period to which ref-  
 13                  erence is made under paragraph (1),

14                  “(B) a disposition of the old qualified resi-  
 15                  dence if it is substantially or completely de-  
 16                  stroyed by a casualty described in section  
 17                  165(c)(3) or compulsorily or involuntarily con-  
 18                  verted (within the meaning of section 1033(a)),  
 19                  or

20                  “(C) a disposition pursuant to a settlement  
 21                  in a divorce or legal separation proceeding  
 22                  where the qualified residence is sold or the  
 23                  other spouse retains such residence.

24           “(g) BASIS ADJUSTMENT.—For purposes of this sub-  
 25           title, if a credit is allowed under this section with respect

1 to the purchase of any residence, the basis of such resi-  
 2 dence shall be reduced by the amount of the credit so al-  
 3 lowed.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Subsection (a) of section 1016 (relating to  
 6 general rule for adjustments to basis) is amended by  
 7 striking “and” at the end of paragraph (36), by  
 8 striking the period at the end of paragraph (37) and  
 9 inserting “, and”, and by adding at the end the fol-  
 10 lowing new paragraph:

11 “(38) in the case of a residence with respect to  
 12 which a credit was allowed under section 25E, to the  
 13 extent provided in section 25E(g).”.

14 (2) Section 23(c)(1) is amended by inserting “,  
 15 25E,” after “25D”.

16 (3) Section 25(e)(1)(C) is amended by inserting  
 17 “25E,” after “25D,” both places it appears.

18 (4) Section 1400C(d)(1) is amended by striking  
 19 “and section 25D” and inserting “and sections 25D  
 20 and 25E”.

21 (5) Section 1400C(d)(2) is amended by striking  
 22 “and 25D” and inserting “25D, and 25E”.

23 (6) The table of sections for subpart A of part  
 24 IV of subchapter A of chapter 1 is amended by in-

1       serting before the item relating to section 26 the fol-  
 2       lowing new item:

“Sec. 25E. Purchase of residences by certain rural homebuyers.”.

3       (c) EFFECTIVE DATE.—The amendments made by  
 4 this section shall apply to purchases after the date of the  
 5 enactment of this Act and before the date which is 5 years  
 6 after such date of enactment.

7 **SEC. 203. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**  
 8 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**  
 9 **RESIDENCE IN CERTAIN RURAL AREAS.**

10       (a) IN GENERAL.—Subsection (c) of section 165 (re-  
 11 lating to limitation on losses of individuals) is amended—

12           (1) by striking “and” at the end of paragraph

13       (2),

14           (2) by striking the period at the end of para-  
 15 graph (3) and inserting “; and”, and

16           (3) by adding at the end the following new  
 17 paragraph:

18           “(4) losses arising from the sale or exchange of  
 19 the principal residence (within the meaning of sec-  
 20 tion 121) of the taxpayer located in a qualifying  
 21 area (as defined in section 223(b)(2)), but only if  
 22 the principal residence was acquired by the taxpayer  
 23 after the date of enactment of this paragraph.”.

1 (b) CONFORMING AMENDMENT.—Section 67(b)(3) is  
 2 amended by striking “paragraph (2) or (3)” and inserting  
 3 “paragraph (2), (3), or (4)”.

4 (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to sales and exchanges after the  
 6 date of the enactment of this Act and before the date  
 7 which is 5 years after such date of enactment.

8 **SEC. 204. INDIVIDUAL HOMESTEAD ACCOUNTS.**

9 (a) IN GENERAL.—Subchapter F of chapter 1 (relat-  
 10 ing to exempt organizations) is amended by adding at the  
 11 end the following new part:

12 **“PART IX—INDIVIDUAL HOMESTEAD ACCOUNTS**

“Sec. 530A. Individual homestead accounts.

13 **“SEC. 530A. INDIVIDUAL HOMESTEAD ACCOUNTS.**

14 “(a) GENERAL RULE.—An individual homestead ac-  
 15 count shall be exempt from taxation under this subtitle.  
 16 Notwithstanding the preceding sentence, any individual  
 17 homestead account shall be subject to the taxes imposed  
 18 by section 511 (relating to imposition of tax on unrelated  
 19 business income of charitable, etc., organizations).

20 “(b) INDIVIDUAL HOMESTEAD ACCOUNT.—For pur-  
 21 poses of this title, the term ‘individual homestead account’  
 22 means a trust created or organized in the United States  
 23 for the exclusive benefit of a qualified individual or his

1 beneficiaries, but only if the written governing instrument  
 2 creating the trust meets the following requirements:

3 “(1) Except in the case of a qualified rollover  
 4 (as defined in subsection (f)(7))—

5 “(A) no contribution will be accepted un-  
 6 less it is in cash,

7 “(B) contributions will not be accepted for  
 8 the taxable year in excess of \$2,500 (deter-  
 9 mined without regard to any contribution made  
 10 under subsection (d)), and

11 “(C) contributions will not be accepted for  
 12 any taxable year following the fifth taxable year  
 13 in which the qualified individual has contributed  
 14 to any individual homestead account.

15 “(2) The requirements of paragraphs (2)  
 16 through (6) of section 408(a) are met.

17 “(c) QUALIFIED INDIVIDUAL; QUALIFYING AREA.—  
 18 For purposes of this section—

19 “(1) QUALIFIED INDIVIDUAL.—The term ‘quali-  
 20 fied individual’ means, for any taxable year, an indi-  
 21 vidual who is a bona fide resident of a qualifying  
 22 area.

23 “(2) QUALIFYING AREA.—The term ‘qualifying  
 24 area’ means an area with respect to which a major  
 25 disaster has been declared by the President under

1 section 401 of the Robert T. Stafford Disaster Relief  
 2 and Emergency Assistance Act (FEMA–1699–DR)  
 3 by reason of severe storms and tornados beginning  
 4 on May 4, 2007, and determined by the President  
 5 to warrant individual or public assistance from the  
 6 Federal Government under such Act.

7 “(d) MATCHING CONTRIBUTIONS TO INDIVIDUAL  
 8 HOMESTEAD ACCOUNTS.—

9 “(1) IN GENERAL.—Not less than once each  
 10 taxable year, the Secretary shall deposit (to the ex-  
 11 tent provided in appropriation Acts) into an indi-  
 12 vidual Homestead account of each qualified indi-  
 13 vidual an amount equal to the applicable percentage  
 14 of the sum of the amounts deposited into all of the  
 15 individual homestead accounts of such individual  
 16 during such taxable year (determined without regard  
 17 to any amount contributed under this subsection).

18 “(2) APPLICABLE PERCENTAGE.—For purposes  
 19 of this subsection, the applicable percentage with re-  
 20 spect to any qualified individual for any taxable year  
 21 shall be determined in accordance with the following  
 22 tables:

23 “(A) In the case of a married individual  
 24 (as defined in section 7703) filing a joint re-  
 25 turn:

**“If modified adjusted gross income is:      The applicable percentage is:**

\$30,000 or less .....	50
Over \$30,000 but not over \$60,000 .....	25
Over \$60,000 but not over \$100,000 .....	12.5
Over \$100,000 .....	zero.

1                   “(B) In the case of a head of household  
2                   (as defined in section 2(b)):

**“If modified adjusted gross income is:      The applicable percentage is:**

\$22,500 or less .....	50
Over \$22,500 but not over \$45,000 .....	25
Over \$45,000 but not over \$75,000 .....	12.5
Over \$75,000 .....	zero.

3                   “(C) In the case of any other individual:

**“If modified adjusted gross income is:      The applicable percentage is:**

\$15,000 or less .....	50
Over \$15,000 but not over \$30,000 .....	25
Over \$30,000 but not over \$50,000 .....	12.5
Over \$50,000 .....	zero.

4                   For purposes of this paragraph, the term ‘modified  
5                   adjusted gross income’ has the meaning given such  
6                   term by section 86(b)(2).

7                   “(3) EXCLUSION FROM INCOME.—Except as  
8                   otherwise provided in this section, gross income shall  
9                   not include any amount deposited into an individual  
10                  homestead account under paragraph (1).

11                  “(4) FORFEITURE OF MATCHING CONTRIBU-  
12                  TIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—  
13                  In the event of a distribution from an individual  
14                  homestead account before the date described in sub-  
15                  section (f)(1)(A) (other than a distribution described  
16                  in subsection (e)(2)(A)), the account holder shall

1       forfeit the corresponding matching contributions and  
 2       interest earned on the matching contributions, un-  
 3       less such distribution is recontributed to such ac-  
 4       count within 6 months of such distribution.

5       “(e) TAX TREATMENT OF DISTRIBUTIONS.—

6               “(1) INCLUSION OF AMOUNTS IN GROSS IN-  
 7       COME.—Except as otherwise provided in this sub-  
 8       section, any amount paid or distributed out of an in-  
 9       dividual homestead account shall be includible in the  
 10      gross income of the payee or distributee, as the case  
 11      may be, in the manner as provided in section 72.  
 12      For purposes of the preceding sentence, distributions  
 13      which are includible in gross income shall be treated  
 14      as first attributable to amounts contributed under  
 15      subsection (d) to the extent thereof.

16              “(2) EXCLUSION OF CATASTROPHIC MEDICAL  
 17      EXPENSE DISTRIBUTIONS IN FIRST FIVE YEARS AND  
 18      QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTIONS  
 19      THEREAFTER.—Paragraph (1) shall not apply to—

20                      “(A) any distribution described in section  
 21                      72(t)92)(B) before the date described in sub-  
 22                      section (f)(1)(A), but only to the extent such  
 23                      distribution does not exceed the balance in the  
 24                      account as of the date of such distribution, re-



1           duced by any matching contribution under sub-  
2           section (d), and

3                   “(B) any qualified individual homestead  
4           distribution.

5           “(f) QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBU-  
6   TION.—For purposes of this section—

7                   “(1) IN GENERAL.—The term ‘qualified indi-  
8           vidual homestead distribution’ means any amount  
9           paid or distributed out of an individual homestead  
10          account which would otherwise be includible in gross  
11          income, to the extent that such payment or distribu-  
12          tion—

13                   “(A) is paid or distributed after the 5-tax-  
14          able year period beginning with the first taxable  
15          year in which the qualified individual made a  
16          contribution to the individual homestead ac-  
17          count (including any predecessor account), and

18                   “(B) is used exclusively to pay qualified in-  
19          dividual homestead expenses for the qualified  
20          individual or the spouse or dependent (as de-  
21          fined in section 152) of such individual.

22                   “(2) QUALIFIED INDIVIDUAL HOMESTEAD EX-  
23   PENSES.—The term ‘qualified individual homestead  
24   expenses’ means any of the following:

25                   “(A) Qualified higher education expenses.

1 “(B) Qualified first-time homebuyer costs.

2 “(C) Qualified business capitalization  
3 costs.

4 “(D) Qualified medical expenses.

5 “(E) Qualified rollovers.

6 “(3) QUALIFIED HIGHER EDUCATION EX-  
7 PENSES.—

8 “(A) IN GENERAL.—The term ‘qualified  
9 higher education expenses’ has the meaning  
10 given such term by section 72(t)(7), determined  
11 by treating postsecondary vocational edu-  
12 cational schools as eligible educational institu-  
13 tions.

14 “(B) POSTSECONDARY VOCATIONAL EDU-  
15 CATION SCHOOL.—The term ‘postsecondary vo-  
16 cational educational school’ means an area vo-  
17 cational education school (as defined in sub-  
18 paragraph (C) or (D) of section 521(4) of the  
19 Carl D. Perkins Vocational and Applied Tech-  
20 nology Education Act (20 U.S.C. 2471(4)))  
21 which is in any State (as defined in section  
22 521(33) of such Act), as such sections are in  
23 effect on the date of the enactment of this sec-  
24 tion.

1           “(C) COORDINATION WITH OTHER BENE-  
 2           FITS.—The amount of qualified higher edu-  
 3           cation expenses for any taxable year shall be re-  
 4           duced as provided in section 25A(g)(2).

5           “(4) QUALIFIED FIRST-TIME HOMEBUYER  
 6           COSTS.—The term ‘qualified first-time homebuyer  
 7           costs’ means qualified acquisition costs (as defined  
 8           in section 72(t)(8) without regard to subparagraph  
 9           (B) thereof) with respect to a principal residence  
 10          (within the meaning of section 121) located in a  
 11          qualifying area for a qualified first-time homebuyer  
 12          (as defined in section 72(t)(8)).

13          “(5) QUALIFIED BUSINESS CAPITALIZATION  
 14          COSTS.—

15               “(A) IN GENERAL.—The term ‘qualified  
 16               business capitalization costs’ means qualified  
 17               expenditures for the capitalization of a qualified  
 18               business pursuant to a qualified plan.

19               “(B) QUALIFIED EXPENDITURES.—The  
 20               term ‘qualified expenditures’ means expendi-  
 21               tures included in a qualified plan, including  
 22               capital, plant, equipment, working capital, and  
 23               inventory expenses.

24               “(C) QUALIFIED BUSINESS.—The term  
 25               ‘qualified business’ means any trade or business

located in a qualifying area other than any trade or business—

“(i) which consists of the operation of any facility described in section 144(c)(6)(B), or

“(ii) which contravenes any law.

Rules similar to the rules under subsection (b) or (c) of section 1397C shall apply to any qualified business under this section.

“(D) QUALIFIED PLAN.—The term ‘qualified plan’ means a business plan which meets such requirements as the Secretary may specify.

“(6) QUALIFIED MEDICAL EXPENSES.—The term ‘qualified medical expenses’ means any amount paid during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in section 213(d)) of the taxpayer, his spouse, or his dependent (as defined in section 152).

“(7) QUALIFIED ROLLOVERS.—The term ‘qualified rollover’ means any amount paid from an individual homestead account of a taxpayer into another such account established for the benefit of—

“(A) such taxpayer, or

“(B) any qualified individual who is—

“(i) the spouse of such taxpayer, or

1                   “(ii) any dependent (as defined in sec-  
2                   tion 152) of the taxpayer.

3       Rules similar to the rules of section 408(d)(3) shall  
4       apply for purposes of this paragraph.

5       “(g) TAX TREATMENT OF ACCOUNTS.—

6               “(1) LOSS OF EXEMPTION IN CASE OF PROHIB-  
7       ITED TRANSACTIONS.—For purposes of this section,  
8       rules similar to the rules of section 408(e) shall  
9       apply.

10              “(2) OTHER RULES TO APPLY.—Rules similar  
11       to the rules of paragraphs (4), (5), and (6) of sec-  
12       tion 408(d) shall apply for purposes of this section.

13       “(h) OTHER DEFINITIONS AND SPECIAL RULES.—  
14       For purposes of this section—

15              “(1) ALL ACCOUNTS TREATED AS ONE AC-  
16       COUNT.—All individual homestead accounts of a  
17       qualified individual shall be treated as 1 account.

18              “(2) TIME WHEN CONTRIBUTIONS DEEMED  
19       MADE.—A taxpayer shall be deemed to have made a  
20       contribution to an individual homestead account on  
21       the last day of the preceding taxable year if the con-  
22       tribution is made on account of such taxable year  
23       and is made not later than the time prescribed by  
24       law for filing the return for such taxable year (not  
25       including extensions thereof).

1           “(3) CUSTODIAL ACCOUNTS.—Rules similar to  
2           the rules of section 408(h) shall apply.

3           “(4) REPORTS.—The trustee of an individual  
4           homestead account shall make such reports regard-  
5           ing such account to the Secretary and to the indi-  
6           vidual for whom the account is maintained with re-  
7           spect to contributions (and the years to which they  
8           relate), distributions, and such other matters as the  
9           Secretary may require under regulations. The re-  
10          ports required by this paragraph—

11                 “(A) shall be filed at such time and in  
12                 such manner as the Secretary prescribes in  
13                 such regulations, and

14                 “(B) shall be furnished to individuals—

15                         “(i) not later than January 31 of the  
16                         calendar year following the calendar year  
17                         to which such reports relate, and

18                         “(ii) in such manner as the Secretary  
19                         prescribes in such regulations.

20           “(5) INVESTMENT IN COLLECTIBLES TREATED  
21           AS DISTRIBUTIONS.—Rules similar to the rules of  
22           section 408(m) shall apply.

23           “(i) DESIGNATION OF EARNED INCOME TAX CREDIT  
24           PAYMENTS FOR DEPOSIT TO INDIVIDUAL HOMESTEAD  
25           ACCOUNT.—

1           “(1) IN GENERAL.—With respect to the return  
 2           of any qualified individual for the taxable year of the  
 3           tax imposed by this chapter, such individual may  
 4           designate that a specified portion (not less than \$1)  
 5           of any overpayment of tax for such taxable year  
 6           which is attributable to the earned income tax credit  
 7           shall be deposited by the Secretary into an individual  
 8           homestead account of such individual. The Secretary  
 9           shall so deposit such portion designated under this  
 10          subsection.

11           “(2) MANNER AND TIME OF DESIGNATION.—A  
 12          designation under paragraph (1) may be made with  
 13          respect to any taxable year—

14                   “(A) at the time of filing the return of the  
 15                   tax imposed by this chapter for such taxable  
 16                   year, or

17                   “(B) at any other time (after the time of  
 18                   filing the return of the tax imposed by this  
 19                   chapter for such taxable year) specified in regu-  
 20                   lations prescribed by the Secretary.

21          Such designation shall be made in such manner as  
 22          the Secretary prescribes by regulations.

23           “(3) PORTION ATTRIBUTABLE TO EARNED IN-  
 24          COME TAX CREDIT.—For purposes of this sub-  
 25          section, an overpayment for any taxable year shall

1 be treated as attributable to the earned income tax  
 2 credit to the extent that such overpayment does not  
 3 exceed the credit allowed to the taxpayer under sec-  
 4 tion 32 for such taxable year.

5 “(4) OVERPAYMENTS TREATED AS RE-  
 6 FUNDED.—For purposes of this title, any portion of  
 7 an overpayment of tax designated under paragraph  
 8 (1) shall be treated as being refunded to the tax-  
 9 payer as of the last date prescribed for filing the re-  
 10 turn of tax imposed by this chapter (determined  
 11 without regard to extensions) or, if later, the date  
 12 the return is filed.

13 “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
 14 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

15 “(1) IN GENERAL.—If any amount is distrib-  
 16 uted from an individual homestead account and is  
 17 not used exclusively to pay qualified individual  
 18 homestead expenses for the holder of the account or  
 19 the spouse or dependent (as defined in section 152)  
 20 of such holder, the tax imposed by this chapter for  
 21 the taxable year of such distribution shall be in-  
 22 creased by 10 percent of such amount which is in-  
 23 cludible in gross income. For purposes of the pre-  
 24 ceding sentence, distributions which are includible in  
 25 gross income shall be treated as first attributable to



1 amounts contributed under subsection (d) to the ex-  
 2 tent thereof.

3 “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distribu-  
 4 tions which are—  
 5 tions which are—

6 “(A) made on or after the date on which  
 7 the account holder attains age 59½,

8 “(B) made to a beneficiary (or the estate  
 9 of the account holder) on or after the death of  
 10 the account holder,

11 “(C) attributable to the account holder’s  
 12 being disabled within the meaning of section  
 13 72(m)(7), or

14 “(D) described in subsection (e)(2)(A).

15 “(k) APPLICATION OF SECTION.—This section shall  
 16 apply with respect to any individual homestead account  
 17 established after the date of the enactment of the Kansas  
 18 Disaster Tax Relief Assistance Act and before the date  
 19 which is 5 years after such date of enactment.”.

20 (b) TAX ON EXCESS CONTRIBUTIONS.—

21 (1) TAX IMPOSED.—Subsection (a) of section  
 22 4973 is amended by striking “or” at the end of  
 23 paragraph (4), by redesignating paragraph (5) as  
 24 paragraph (6), and by inserting after paragraph (4)  
 25 the following new paragraph:

1           “(5) an individual homestead account (within  
2           the meaning of section 530A(b)), or”.

3           (2) EXCESS CONTRIBUTIONS.—Section 4973 is  
4           amended by adding at the end the following sub-  
5           section:

6           “(h) INDIVIDUAL HOMESTEAD ACCOUNTS.—For pur-  
7           poses of this section, in the case of individual homestead  
8           accounts, the term ‘excess contributions’ means the sum  
9           of—

10           “(1) the excess (if any) of—

11           “(A) the amount contributed for the tax-  
12           able year to the accounts (other than a quali-  
13           fied rollover, as defined in section 530A(f)(7),  
14           or a contribution under section 530A(d)), over

15           “(B) the amount allowable under section  
16           530A for such contributions, and

17           “(2) the amount determined under this sub-  
18           section for the preceding taxable year reduced by the  
19           sum of—

20           “(A) the distributions out of the accounts  
21           for the taxable year which were included in the  
22           gross income of the payee under section  
23           530A(e)(1),

24           “(B) the distributions out of the accounts  
25           for the taxable year to which rules similar to

1 the rules of section 408(d)(5) apply by reason  
 2 of section 530A(g)(2), and

3 “(C) the excess (if any) of the maximum  
 4 amount allowable as a contribution under sec-  
 5 tion 530A for the taxable year over the amount  
 6 contributed to the account for the taxable year  
 7 (other than a contribution under section  
 8 530A(d)).

9 For purposes of this subsection, any contribution which  
 10 is distributed from the individual homestead account in  
 11 a distribution to which rules similar to the rules of section  
 12 408(d)(4) apply by reason of section 530A(g)(2) shall be  
 13 treated as an amount not contributed.”.

14 (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
 15 4975 is amended—

16 (1) by adding at the end of subsection (c) the  
 17 following paragraph:

18 “(7) SPECIAL RULE FOR INDIVIDUAL HOME-  
 19 STEAD ACCOUNTS.—An individual for whose benefit  
 20 an individual homestead account is established and  
 21 any contributor to such account shall be exempt  
 22 from the tax imposed by this section with respect to  
 23 any transaction concerning such account (which  
 24 would otherwise be taxable under this section) if,  
 25 with respect to such transaction, the account ceases

1 to be an individual homestead account by reason of  
 2 the application of section 530A(g)(1) to such ac-  
 3 count.”, and

4 (2) in subsection (e)(1), by striking “or” at the  
 5 end of subparagraph (F), by redesignating subpara-  
 6 graph (G) as subparagraph (H), and by inserting  
 7 after subparagraph (F) the following new subpara-  
 8 graph:

9 “(G) an individual homestead account de-  
 10 scribed in section 530A(b), or”.

11 (d) INFORMATION RELATING TO CERTAIN TRUSTS  
 12 AND ANNUITY PLANS.—Subsection (c) of section 6047 is  
 13 amended—

14 (1) by inserting “or section 530A” after “sec-  
 15 tion 219”, and

16 (2) by inserting “, of any individual homestead  
 17 account described in section 530A(b),” after “sec-  
 18 tion 408(a)”.

19 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-  
 20 TION.—Clause (i) of section 6104(a)(1)(B) is amended by  
 21 inserting “an individual homestead account described in  
 22 section 530A(b),” after “section 408(a),”.

23 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
 24 HOMESTEAD ACCOUNTS.—Paragraph (2) of section  
 25 6693(a) is amended by striking “and” at the end of sub-

1 paragraph (D), by striking the period and inserting “,  
 2 and” at the end of subparagraph (E), and by inserting  
 3 after subparagraph (E) the following new subparagraph:

4 “(F) section 530A(h)(4) (relating to indi-  
 5 vidual homestead accounts).”.

6 (g) CLERICAL AMENDMENT.—The table of parts for  
 7 subchapter F of chapter 1 is amended by adding at the  
 8 end the following new item:

“PART IX. INDIVIDUAL HOMESTEAD ACCOUNTS”.

## 9 **TITLE III—INCENTIVES FOR** 10 **MAIN STREET BUSINESSES**

### 11 **SEC. 301. RURAL INVESTMENT TAX CREDIT.**

12 (a) IN GENERAL.—Subpart D of part IV of sub-  
 13 chapter A of chapter 1 (relating to business related cred-  
 14 its) is amended by adding at the end the following new  
 15 section:

### 16 **“SEC. 42A. RURAL INVESTMENT CREDIT.**

17 “(a) IN GENERAL.—For purposes of section 38, the  
 18 amount of the rural investment credit determined under  
 19 this section for any taxable year in the credit period shall  
 20 be an amount equal to the applicable percentage of the  
 21 eligible basis of each qualified rural investment building.

22 “(b) APPLICABLE PERCENTAGE: 70 PERCENT  
 23 PRESENT VALUE CREDIT FOR NEW BUILDINGS; 30 PER-  
 24 CENT PRESENT VALUE CREDIT FOR EXISTING BUILD-  
 25 INGS.—For purposes of this section—

“(1) IN GENERAL.—The term ‘applicable percentage’ means the appropriate percentage prescribed by the Secretary for the earlier of—

“(A) the first month of the credit period with respect to a rural investment building, or

“(B) at the election of the taxpayer, the month in which the taxpayer and the rural investment credit agency enter into an agreement with respect to such building (which is binding on such agency, the taxpayer, and all successors in interest) as to the rural investment credit dollar amount to be allocated to such building.

A month may be elected under subparagraph (B) only if the election is made not later than the 5th day after the close of such month. Such an election, once made, shall be irrevocable.

“(2) METHOD OF PRESCRIBING PERCENTAGES.—The percentages prescribed by the Secretary for any month shall be percentages which will yield over a 10-year period amounts of credit under subsection (a) which have a present value equal to—

“(A) 70 percent of the eligible basis of a new building, and

“(B) 30 percent of the eligible basis of an existing building.

1           “(3) METHOD OF DISCOUNTING.—The present  
2       value under paragraph (2) shall be determined—

3           “(A) as of the last day of the 1st year of  
4       the 10-year period referred to in paragraph (2),

5           “(B) by using a discount rate equal to 72  
6       percent of the average of the annual Federal  
7       mid-term rate and the annual Federal long-  
8       term rate applicable under section 1274(d)(1)  
9       to the month applicable under subparagraph  
10      (A) or (B) of paragraph (1) and compounded  
11      annually, and

12          “(C) by assuming that the credit allowable  
13      under this section for any year is received on  
14      the last day of such year.

15      “(c) ELIGIBLE BASIS; QUALIFIED RURAL INVEST-  
16      MENT BUILDING.—For purposes of this section—

17          “(1) ELIGIBLE BASIS.—

18           “(A) IN GENERAL.—The eligible basis of  
19      any qualified rural investment building for any  
20      taxable year shall be determined under rules  
21      similar to the rules under section 42(d), except  
22      that—

23           “(i) the determination of the adjusted  
24      basis of any building shall be made as of  
25      the beginning of the credit period, and

1 “(ii) such basis shall include develop-  
 2 ment costs properly attributable to such  
 3 building.

4 “(B) DEVELOPMENT COSTS.—For pur-  
 5 poses of subparagraph (A)(ii), the term ‘devel-  
 6 opment costs’ includes—

7 “(i) site preparation costs,

8 “(ii) State and local impact fees,

9 “(iii) reasonable development costs,

10 “(iv) professional fees related to basis  
 11 items,

12 “(v) construction financing costs re-  
 13 lated to basis items other than land, and

14 “(vi) on-site and adjacent improve-  
 15 ments required by State and local govern-  
 16 ments.

17 “(2) QUALIFIED RURAL INVESTMENT BUILD-  
 18 ING.—The term ‘qualified rural investment building’  
 19 means any building which is part of a qualified rural  
 20 investment project at all times during the period—

21 “(A) beginning on the 1st day in the com-  
 22 pliance period on which such building is part of  
 23 such an investment project, and

24 “(B) ending on the last day of the compli-  
 25 ance period with respect to such building.



1       “(d) REHABILITATION EXPENDITURES TREATED AS  
 2 SEPARATE NEW BUILDING.—Rehabilitation expenditures  
 3 paid or incurred by the taxpayer with respect to any build-  
 4 ing shall be treated for purposes of this section as a sepa-  
 5 rate new building under the rules of section 42(e).

6       “(e) DEFINITION AND SPECIAL RULES RELATING TO  
 7 CREDIT PERIOD.—

8               “(1) CREDIT PERIOD DEFINED.—For purposes  
 9 of this section, the term ‘credit period’ means, with  
 10 respect to any building, the period of 10 taxable  
 11 years beginning with the taxable year in which the  
 12 building is first placed in service.

13               “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT  
 14 PERIOD.—

15               “(A) IN GENERAL.—The credit allowable  
 16 under subsection (a) with respect to any build-  
 17 ing for the 1st taxable year of the credit period  
 18 shall be determined by multiplying such credit  
 19 by the fraction—

20                       “(i) the numerator of which is the  
 21 number of full months of such year during  
 22 which such building was in service, and

23                       “(ii) the denominator of which is 12.

24               “(B) DISALLOWED 1ST YEAR CREDIT AL-  
 25 LOWED IN 11TH YEAR.—Any reduction by rea-

1 son of subparagraph (A) in the credit allowable  
 2 (without regard to subparagraph (A)) for the  
 3 1st taxable year of the credit period shall be al-  
 4 lowable under subsection (a) for the 1st taxable  
 5 year following the credit period.

6 “(3) CREDIT PERIOD FOR EXISTING BUILDINGS  
 7 NOT TO BEGIN BEFORE REHABILITATION CREDIT  
 8 ALLOWED.—The credit period for an existing build-  
 9 ing shall not begin before the 1st taxable year of the  
 10 credit period for rehabilitation expenditures with re-  
 11 spect to the building.

12 “(f) QUALIFIED RURAL INVESTMENT PROJECT;  
 13 QUALIFYING AREA.—For purposes of this section—

14 “(1) QUALIFIED RURAL INVESTMENT  
 15 PROJECT.—The term ‘qualified rural investment  
 16 project’ means any investment project of 1 or more  
 17 qualified rural investment buildings located in a  
 18 qualifying area (and, if necessary to the project, any  
 19 contiguous county) and selected by the State accord-  
 20 ing to its qualified rural investment plan.

21 “(2) QUALIFYING AREA.—The term ‘qualifying  
 22 area’ means an area with respect to which a major  
 23 disaster has been declared by the President under  
 24 section 401 of the Robert T. Stafford Disaster Relief  
 25 and Emergency Assistance Act (FEMA–1699–DR)

1 by reason of severe storms and tornados beginning  
 2 on May 4, 2007, and determined by the President  
 3 to warrant individual or public assistance from the  
 4 Federal Government under such Act.

5 “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-  
 6 ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-  
 7 CATED IN A STATE.—

8 “(1) CREDIT MAY NOT EXCEED CREDIT  
 9 AMOUNT ALLOCATED TO BUILDING.—The amount of  
 10 the credit determined under this section for any tax-  
 11 able year with respect to any building shall not ex-  
 12 ceed the rural investment credit dollar amount allo-  
 13 cated to such building under rules similar to the  
 14 rules of section 42(h)(1).

15 “(2) ALLOCATED CREDIT AMOUNT TO APPLY  
 16 TO ALL TAXABLE YEARS ENDING DURING OR AFTER  
 17 CREDIT ALLOCATION YEAR.—Any rural investment  
 18 credit dollar amount allocated to any building for  
 19 any calendar year—

20 “(A) shall apply to such building for all  
 21 taxable years in the credit period ending during  
 22 or after such calendar year, and

23 “(B) shall reduce the aggregate rural in-  
 24 vestment credit dollar amount of the allocating  
 25 agency only for such calendar year.

1           “(3) RURAL INVESTMENT CREDIT DOLLAR  
2       AMOUNT FOR AGENCIES.—

3           “(A) IN GENERAL.—The aggregate rural  
4       investment credit dollar amount which a rural  
5       investment credit agency may allocate for any  
6       calendar year is the portion of the State rural  
7       investment credit ceiling allocated under this  
8       paragraph for such calendar year to such agen-  
9       cy.

10          “(B) STATE CEILING INITIALLY ALLO-  
11       CATED TO STATE RURAL INVESTMENT CREDIT  
12       AGENCIES.—Except as provided in subpara-  
13       graphs (D) and (E), the State rural investment  
14       credit ceiling for each calendar year shall be al-  
15       located to the rural investment credit agency of  
16       such State. If there is more than 1 rural invest-  
17       ment credit agency of a State, all such agencies  
18       shall be treated as a single agency.

19          “(C) STATE RURAL INVESTMENT CREDIT  
20       CEILING.—The State rural investment credit  
21       ceiling applicable to any State and any calendar  
22       year shall be an amount equal to the sum of—

23               “(i) the unused State rural investment  
24               credit ceiling (if any) of such State for the  
25               preceding calendar year,

1                   “(ii) \$1,000,000 for each qualifying  
2                   area in the State,

3                   “(iii) the amount of State rural in-  
4                   vestment credit ceiling returned in the cal-  
5                   endar year, plus

6                   “(iv) the amount (if any) allocated  
7                   under subparagraph (D) to such State by  
8                   the Secretary.

9                   For purposes of clause (i), the unused State  
10                  rural investment credit ceiling for any calendar  
11                  year is the excess (if any) of the sum of the  
12                  amounts described in clauses (ii) through (iv)  
13                  over the aggregate rural investment credit dol-  
14                  lar amount allocated for such year. For pur-  
15                  poses of clause (iii), the amount of State rural  
16                  investment credit ceiling returned in the cal-  
17                  endar year equals the rural investment credit  
18                  dollar amount previously allocated within the  
19                  State to any investment project which fails to  
20                  meet the 10 percent test under section  
21                  42(h)(1)(E)(ii) on a date after the close of the  
22                  calendar year in which the allocation was made  
23                  or which does not become a qualified rural in-  
24                  vestment project within the period required by  
25                  this section or the terms of the allocation or to

any investment project with respect to which an allocation is canceled by mutual consent of the rural investment credit agency and the allocation recipient.

“(D) UNUSED RURAL INVESTMENT CREDIT CARRYOVERS ALLOCATED AMONG CERTAIN STATES.—

“(i) IN GENERAL.—The unused rural investment credit carryover of a State for any calendar year shall be assigned to the Secretary for allocation among qualified States for the succeeding calendar year.

“(ii) UNUSED RURAL INVESTMENT CREDIT CARRYOVER.—For purposes of this subparagraph, the unused rural investment credit carryover of a State for any calendar year is the excess (if any) of the unused State rural investment credit ceiling for such year (as defined in subparagraph (C)(i)) over the excess (if any) of—

“(I) the unused State rural investment credit ceiling for the year preceding such year, over

1 “(II) the aggregate rural invest-  
 2 ment credit dollar amount allocated  
 3 for such year.

4 “(iii) FORMULA FOR ALLOCATION OF  
 5 UNUSED RURAL INVESTMENT CREDIT  
 6 CARRYOVERS AMONG QUALIFIED  
 7 STATES.—The amount allocated under this  
 8 subparagraph to a qualified State for any  
 9 calendar year shall be the amount deter-  
 10 mined by the Secretary to bear the same  
 11 ratio to the aggregate unused rural invest-  
 12 ment credit carryovers of all States for the  
 13 preceding calendar year as such State’s  
 14 population for the calendar year bears to  
 15 the population of all qualified States for  
 16 the calendar year. For purposes of the pre-  
 17 ceding sentence, population shall be deter-  
 18 mined in accordance with section 146(j).

19 “(iv) QUALIFIED STATE.—For pur-  
 20 poses of this subparagraph, the term  
 21 ‘qualified State’ means, with respect to a  
 22 calendar year, any State—

23 “(I) which allocated its entire  
 24 State rural investment credit ceiling  
 25 for the preceding calendar year, and

1 “(II) for which a request is made  
 2 (not later than May 1 of the calendar  
 3 year) to receive an allocation under  
 4 clause (iii).

5 “(E) STATE MAY PROVIDE FOR DIF-  
 6 FERENT ALLOCATION.—Rules similar to the  
 7 rules of section 146(e) (other than paragraph  
 8 (2)(B) thereof) shall apply for purposes of this  
 9 paragraph.

10 “(F) POPULATION.—For purposes of this  
 11 paragraph, population shall be determined in  
 12 accordance with section 146(j).

13 “(G) COST-OF-LIVING ADJUSTMENT.—

14 “(i) IN GENERAL.—In the case of a  
 15 calendar year after 2007, the \$1,000,000  
 16 amount in subparagraph (C) shall be in-  
 17 creased by an amount equal to—

18 “(I) such dollar amount, multi-  
 19 plied by

20 “(II) the cost-of-living adjust-  
 21 ment determined under section 1(f)(3)  
 22 for such calendar year by substituting  
 23 ‘calendar year 2006’ for ‘calendar  
 24 year 1992’ in subparagraph (B) there-  
 25 of.



1                   “(ii) ROUNDING.—Any increase under  
 2                   clause (i) which is not a multiple of \$5,000  
 3                   shall be rounded to the next lowest mul-  
 4                   tiple of \$5,000.

5                   “(4) PORTION OF STATE CEILING SET-ASIDE  
 6                   FOR CERTAIN INVESTMENT PROJECTS INVOLVING  
 7                   QUALIFIED NONPROFIT ORGANIZATIONS.—

8                   “(A) IN GENERAL.—At least 10 percent of  
 9                   the State rural investment credit ceiling for any  
 10                  State for any calendar year shall be allocated to  
 11                  qualified rural investment projects described in  
 12                  subparagraph (B).

13                  “(B) INVESTMENT PROJECTS INVOLVING  
 14                  QUALIFIED NONPROFIT ORGANIZATIONS.—For  
 15                  purposes of subparagraph (A), a qualified rural  
 16                  investment project is described in this subpara-  
 17                  graph if a qualified nonprofit organization is to  
 18                  materially participate (within the meaning of  
 19                  section 469(h)) in the development and oper-  
 20                  ation of the investment project throughout the  
 21                  compliance period.

22                  “(C) QUALIFIED NONPROFIT ORGANIZA-  
 23                  TION.—For purposes of this paragraph, the  
 24                  term ‘qualified nonprofit organization’ means  
 25                  any organization if—

1 “(i) such organization is described in  
 2 any paragraph of section 501(c) and is ex-  
 3 empt from tax under section 501(a),

4 “(ii) such organization is determined  
 5 by the State rural investment credit agency  
 6 not to be affiliated with or controlled by a  
 7 for-profit organization, and

8 “(iii) 1 of the exempt purposes of  
 9 such organization includes the fostering of  
 10 rural investment.

11 “(D) TREATMENT OF CERTAIN SUBSIDI-  
 12 ARIES.—

13 “(i) IN GENERAL.—For purposes of  
 14 this paragraph, a qualified nonprofit orga-  
 15 nization shall be treated as satisfying the  
 16 ownership and material participation test  
 17 of subparagraph (B) if any qualified cor-  
 18 poration in which such organization holds  
 19 stock satisfies such test.

20 “(ii) QUALIFIED CORPORATION.—For  
 21 purposes of clause (i), the term ‘qualified  
 22 corporation’ means any corporation if 100  
 23 percent of the stock of such corporation is  
 24 held by 1 or more qualified nonprofit orga-

1           nizations at all times during the period  
2           such corporation is in existence.

3           “(E) STATE MAY NOT OVERRIDE SET-  
4           ASIDE.—Nothing in subparagraph (F) of para-  
5           graph (3) shall be construed to permit a State  
6           not to comply with subparagraph (A) of this  
7           paragraph.

8           “(F) CREDITS FOR QUALIFIED NONPROFIT  
9           ORGANIZATIONS.—

10           “(i) ALLOWANCE OF CREDIT.—Any  
11           credit which would be allowable under sub-  
12           section (a) with respect to a qualified rural  
13           investment building of a qualified nonprofit  
14           organization if such organization were not  
15           exempt from tax under this chapter shall  
16           be treated as a credit allowable under sub-  
17           part C to such organization.

18           “(ii) USE OF CREDIT.—A qualified  
19           nonprofit organization may assign, trade,  
20           sell, or otherwise transfer any credit allow-  
21           able to such organization under subpara-  
22           graph (A) to any taxpayer.

23           “(iii) CREDIT NOT INCOME.—A trans-  
24           fer under subparagraph (B) of any credit  
25           allowable under subparagraph (A) shall not

1 result in income for purposes of section  
2 511.

3 “(5) SPECIAL RULES.—

4 “(A) BUILDING MUST BE LOCATED WITH-  
5 IN JURISDICTION OF CREDIT AGENCY.—A rural  
6 investment credit agency may allocate its aggre-  
7 gate rural investment credit dollar amount only  
8 to buildings located in the jurisdiction of the  
9 governmental unit of which such agency is a  
10 part.

11 “(B) AGENCY ALLOCATIONS IN EXCESS OF  
12 LIMIT.—If the aggregate rural investment cred-  
13 it dollar amounts allocated by a rural invest-  
14 ment credit agency for any calendar year exceed  
15 the portion of the State rural investment credit  
16 ceiling allocated to such agency for such cal-  
17 endar year, the rural investment credit dollar  
18 amounts so allocated shall be reduced (to the  
19 extent of such excess) for buildings in the re-  
20 verse of the order in which the allocations of  
21 such amounts were made.

22 “(C) CREDIT REDUCED IF ALLOCATED  
23 CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT  
24 WHICH WOULD BE ALLOWABLE WITHOUT RE-  
25 GARD TO SALES CONVENTION, ETC.—

1                   “(i) IN GENERAL.—The amount of  
 2                   the credit determined under this section  
 3                   with respect to any building shall not ex-  
 4                   ceed the clause (ii) percentage of the  
 5                   amount of the credit which would (but for  
 6                   this subparagraph) be determined under  
 7                   this section with respect to such building.

8                   “(ii) DETERMINATION OF PERCENT-  
 9                   AGE.—For purposes of clause (i), the  
 10                  clause (ii) percentage with respect to any  
 11                  building is the percentage which—

12                   “(I) the rural investment credit  
 13                   dollar amount allocated to such build-  
 14                   ing bears to

15                   “(II) the credit amount deter-  
 16                   mined in accordance with clause (iii).

17                   “(iii) DETERMINATION OF CREDIT  
 18                   AMOUNT.—The credit amount determined  
 19                   in accordance with this clause is the  
 20                   amount of the credit which would (but for  
 21                   this subparagraph) be determined under  
 22                   this section with respect to the building if  
 23                   this section were applied without regard to  
 24                   paragraph (2)(A) of subsection (e).

1                   “(D) RURAL INVESTMENT CREDIT AGENCY  
 2                   TO SPECIFY APPLICABLE PERCENTAGE AND  
 3                   MAXIMUM ELIGIBLE BASIS.—In allocating a  
 4                   rural investment credit dollar amount to any  
 5                   building, the rural investment credit agency  
 6                   shall specify the applicable percentage and the  
 7                   maximum eligible basis which may be taken  
 8                   into account under this section with respect to  
 9                   such building. The applicable percentage and  
 10                  maximum eligible basis so specified shall not ex-  
 11                  ceed the applicable percentage and eligible basis  
 12                  determined under this section without regard to  
 13                  this subsection.

14                  “(6) OTHER DEFINITIONS.—For purposes of  
 15                  this subsection—

16                         “(A) RURAL INVESTMENT CREDIT AGEN-  
 17                         CY.—The term ‘rural investment credit agency’  
 18                         means any agency authorized to carry out this  
 19                         subsection.

20                         “(B) POSSESSIONS TREATED AS STATES.—  
 21                         The term ‘State’ includes a possession of the  
 22                         United States.

23                         “(7) PORTION OF STATE CEILING SET-ASIDE  
 24                         FOR QUALIFIED RURAL SMALL BUSINESS INVEST-  
 25                         MENT CREDITS.—Not more than 20 percent of the

1 State rural investment credit ceiling for any State  
 2 for any calendar year may be allocated to qualified  
 3 rural small business investment credits under section  
 4 42B.

5 “(h) DEFINITIONS AND SPECIAL RULES.—For pur-  
 6 poses of this section—

7 “(1) COMPLIANCE PERIOD.—The term ‘compli-  
 8 ance period’ means, with respect to any building, the  
 9 period of 10 taxable years beginning with the 1st  
 10 taxable year of the credit period with respect there-  
 11 to.

12 “(2) NEW BUILDING.—The term ‘new building’  
 13 means a building the original use of which begins  
 14 with the taxpayer.

15 “(3) EXISTING BUILDING.—The term ‘existing  
 16 building’ means any building which is not a new  
 17 building.

18 “(4) APPLICATION TO ESTATES AND TRUSTS.—  
 19 In the case of an estate or trust, the amount of the  
 20 credit determined under subsection (a) and any in-  
 21 crease in tax under subsection (i) shall be appor-  
 22 tioned between the estate or trust and the bene-  
 23 ficiaries on the basis of the income of the estate or  
 24 trust allocable to each.

25 “(i) RECAPTURE OF CREDIT.—If—

1           “(1) as of the close of any taxable year in the  
2           compliance period, the amount of the eligible basis  
3           of any building with respect to the taxpayer is less  
4           than

5           “(2) the amount of such basis as of the close  
6           of the preceding taxable year, then the taxpayer’s  
7           tax under this chapter for the taxable year shall be  
8           increased by the credit recapture amount determined  
9           under rules similar to the rules of section 42(j).

10          “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-  
11       RETARY.—

12           “(1) CERTIFICATION WITH RESPECT TO 1ST  
13       YEAR OF CREDIT PERIOD.—Following the close of  
14       the 1st taxable year in the credit period with respect  
15       to any qualified rural investment building, the tax-  
16       payer shall certify to the Secretary (at such time  
17       and in such form and in such manner as the Sec-  
18       retary prescribes)—

19           “(A) the taxable year, and calendar year,  
20           in which such building was first placed in serv-  
21           ice,

22           “(B) the eligible basis of such building as  
23           of the beginning of the credit period,

24           “(C) the maximum applicable percentage  
25           and eligible basis permitted to be taken into ac-



1 count by the appropriate rural investment cred-  
 2 it agency under subsection (g),

3 “(D) the election made under subsection  
 4 (f) with respect to the qualified rural invest-  
 5 ment project of which such building is a part,  
 6 and

7 “(E) such other information as the Sec-  
 8 retary may require.

9 In the case of a failure to make the certification re-  
 10 quired by the preceding sentence on the date pre-  
 11 scribed therefor, unless it is shown that such failure  
 12 is due to reasonable cause and not to willful neglect,  
 13 no credit shall be allowable by reason of subsection  
 14 (a) with respect to such building for any taxable  
 15 year ending before such certification is made.

16 “(2) ANNUAL REPORTS TO THE SECRETARY.—  
 17 The Secretary may require taxpayers to submit an  
 18 information return (at such time and in such form  
 19 and manner as the Secretary prescribes) for each  
 20 taxable year setting forth—

21 “(A) the eligible basis for the taxable year  
 22 of each qualified rural investment building of  
 23 the taxpayer,

24 “(B) the information described in para-  
 25 graph (1)(C) for the taxable year, and

1                   “(C) such other information as the Sec-  
2                   retary may require.

3           The penalty under section 6652(j) shall apply to any  
4           failure to submit the return required by the Sec-  
5           retary under the preceding sentence on the date pre-  
6           scribed therefor.

7                   “(3) ANNUAL REPORTS FROM RURAL INVEST-  
8           MENT CREDIT AGENCIES.—Each agency which allo-  
9           cates any rural investment credit amount to any  
10          building for any calendar year shall submit to the  
11          Secretary (at such time and in such manner as the  
12          Secretary shall prescribe) an annual report speci-  
13          fying—

14                   “(A) the amount of rural investment credit  
15                  amount allocated to each building for such year,

16                   “(B) sufficient information to identify each  
17                  such building and the taxpayer with respect  
18                  thereto, and

19                   “(C) such other information as the Sec-  
20                  retary may require.

21          The penalty under section 6652(j) shall apply to any  
22          failure to submit the report required by the pre-  
23          ceding sentence on the date prescribed therefor.

24                   “(k) RESPONSIBILITIES OF RURAL INVESTMENT  
25          CREDIT AGENCIES.—

1           “(1) PLANS FOR ALLOCATION OF CREDIT  
2       AMONG INVESTMENT PROJECTS.—

3           “(A) IN GENERAL.—Notwithstanding any  
4       other provision of this section, the rural invest-  
5       ment credit dollar amount with respect to any  
6       building shall be zero unless—

7           “(i) such amount was allocated pursu-  
8       ant to a qualified rural investment plan of  
9       the agency which is approved by the gov-  
10      ernmental unit (in accordance with rules  
11      similar to the rules of section 147(f)(2)  
12      (other than subparagraph (B)(ii) thereof))  
13      of which such agency is a part,

14          “(ii) such agency notifies the chief ex-  
15      ecutive officer (or the equivalent) of the  
16      local jurisdiction within which the building  
17      is located of such investment project and  
18      provides such individual a reasonable op-  
19      portunity to comment on the investment  
20      project,

21          “(iii) a comprehensive market study  
22      of the development needs of individuals in  
23      the qualifying area to be served by the in-  
24      vestment project is conducted before the  
25      credit allocation is made and at the devel-

oper's expense by a disinterested party who  
is approved by such agency, and

“(iv) a written explanation is available  
to the general public for any allocation of  
a rural investment credit dollar amount  
which is not made in accordance with es-  
tablished priorities and selection criteria of  
the rural investment credit agency.

“(B) QUALIFIED RURAL INVESTMENT  
PLAN.—For purposes of this section, the term  
‘qualified rural investment plan’ means any  
plan—

“(i) which sets forth selection criteria  
to be used to determine priorities of the  
rural investment credit agency which are  
appropriate to the qualifying area,

“(ii) which also gives preference in al-  
locating rural investment credit dollar  
amounts among selected investment  
projects to—

“(I) investment projects that tar-  
get those small rural counties with  
consistently high rates of net out-mi-  
gration,

1                   “(II) investment projects that  
2                   link the economic development and job  
3                   creation efforts of 2 or more small  
4                   rural counties with high rates of net  
5                   out-migration, and

6                   “(III) investment projects that  
7                   link the economic development and job  
8                   creation efforts of 1 or more small  
9                   rural counties in the State with high  
10                  rates of net out-migration to related  
11                  efforts in regions of such State experi-  
12                  encing economic growth, and

13                  “(iii) which provides a procedure that  
14                  the agency (or an agent or other private  
15                  contractor of such agency) will follow in  
16                  monitoring for noncompliance with the  
17                  provisions of this section and in notifying  
18                  the Internal Revenue Service of such non-  
19                  compliance which such agency becomes  
20                  aware of and in monitoring for noncompli-  
21                  ance through regular site visits.

22                  “(C) CERTAIN SELECTION CRITERIA MUST  
23                  BE USED.—The selection criteria set forth in a  
24                  qualified rural investment plan must include—

25                  “(i) investment project location,

1 “(ii) technology and transportation in-  
2 frastructure needs, and

3 “(iii) private development trends.

4 “(2) CREDIT ALLOCATED TO BUILDING NOT TO  
5 EXCEED AMOUNT NECESSARY TO ASSURE INVEST-  
6 MENT PROJECT FEASIBILITY.—

7 “(A) IN GENERAL.—The rural investment  
8 credit dollar amount allocated to an investment  
9 project shall not exceed the amount the rural  
10 investment credit agency determines is nec-  
11 essary for the financial feasibility of the invest-  
12 ment project and its viability as a qualified  
13 rural investment project throughout the compli-  
14 ance period.

15 “(B) AGENCY EVALUATION.—In making  
16 the determination under subparagraph (A), the  
17 rural investment credit agency shall consider—

18 “(i) the sources and uses of funds and  
19 the total financing planned for the invest-  
20 ment project,

21 “(ii) any proceeds or receipts expected  
22 to be generated by reason of tax benefits,

23 “(iii) the percentage of the rural in-  
24 vestment credit dollar amount used for in-

vestment project costs other than the cost  
of intermediaries, and

“(iv) the reasonableness of the devel-  
opmental and operational costs of the in-  
vestment project.

Clause (iii) shall not be applied so as to impede  
the development of investment projects in hard-  
to-develop areas.

“(C) DETERMINATION MADE WHEN CRED-  
IT AMOUNT APPLIED FOR AND WHEN BUILDING  
PLACED IN SERVICE.—

“(i) IN GENERAL.—A determination  
under subparagraph (A) shall be made as  
of each of the following times:

“(I) The application for the rural  
investment credit dollar amount.

“(II) The allocation of the rural  
investment credit dollar amount.

“(III) The date the building is  
first placed in service.

“(ii) CERTIFICATION AS TO AMOUNT  
OF OTHER SUBSIDIES.—Prior to each de-  
termination under clause (i), the taxpayer  
shall certify to the rural investment credit  
agency the full extent of all Federal, State,

1                   and local subsidies which apply (or which  
2                   the taxpayer expects to apply) with respect  
3                   to the building.

4           “(l) REGULATIONS.—The Secretary shall prescribe  
5 such regulations as may be necessary or appropriate to  
6 carry out the purposes of this section, including regula-  
7 tions—

8                   “(1) dealing with—

9                   “(A) investment projects which include  
10                  more than 1 building or only a portion of a  
11                  building,

12                  “(B) buildings which are sold in portions,

13                  “(2) providing for the application of this section  
14                  to short taxable years,

15                  “(3) preventing the avoidance of the rules of  
16                  this section, and

17                  “(4) providing the opportunity for rural invest-  
18                  ment credit agencies to correct administrative errors  
19                  and omissions with respect to allocations and record  
20                  keeping within a reasonable period after their dis-  
21                  covery, taking into account the availability of regula-  
22                  tions and other administrative guidance from the  
23                  Secretary.”.

24           (b) CURRENT YEAR BUSINESS CREDIT CALCULA-  
25 TION.—Section 38(b) (relating to current year business



1 credit) is amended by striking “plus” at the end of para-  
 2 graph (30), by striking the period at the end of paragraph  
 3 (31) and inserting “, plus”, and by adding at the end the  
 4 following new paragraph:

5 “(32) the rural investment credit determined  
 6 under section 42A(a).”.

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 55(c)(1) is amended by inserting  
 9 “or subsection (i) or (j) of section 42A” after “sec-  
 10 tion 42”.

11 (2) Subsections (i)(c)(3), (i)(c)(6)(B)(i), and  
 12 (k)(1) of section 469 are each amended by inserting  
 13 “or 42A” after “section 42”.

14 (3) Section 772(a) is amended by striking  
 15 “and” at the end of paragraph (10), by redesign-  
 16 ating paragraph (11) as paragraph (12), and by in-  
 17 serting after paragraph (10) the following new para-  
 18 graph:

19 “(11) the rural investment credit determined  
 20 under section 42A, and”.

21 (4) Section 774(b)(4) is amended by inserting  
 22 “, 42A(i),” after “section 42(j)”.

23 (d) CLERICAL AMENDMENT.—The table of sections  
 24 for subpart D of part IV of subchapter A of chapter 1

1 is amended by inserting after the item relating to section  
 2 42 the following new item:

“Sec. 42A. Rural investment credit.”.

3 (e) EFFECTIVE DATE.—The amendments made by  
 4 this section shall apply to expenditures made in taxable  
 5 years beginning after the date of the enactment of this  
 6 Act and before the date which is 5 years after such date  
 7 of enactment.

8 **SEC. 302. QUALIFIED RURAL SMALL BUSINESS INVEST-**  
 9 **MENT CREDIT.**

10 (a) IN GENERAL.—Subpart D of part IV of sub-  
 11 chapter A of chapter 1 (relating to business related cred-  
 12 its), as amended by this Act, is amended by adding at  
 13 the end the following new section:

14 **“SEC. 42B. QUALIFIED RURAL SMALL BUSINESS INVEST-**  
 15 **MENT CREDIT.**

16 “(a) IN GENERAL.—For purposes of section 38, in  
 17 the case of a qualified rural small business, the amount  
 18 of the qualified rural small business investment credit de-  
 19 termined under this section for any taxable year is equal  
 20 to 30 percent of the qualified expenditures for the taxable  
 21 year of such business.

22 “(b) DOLLAR LIMITATION.—

23 “(1) IN GENERAL.—The credit allowable under  
 24 subsection (a) for any taxable year shall not exceed  
 25 the lesser of—

1 “(A) \$5,000, or

2 “(B) the amount when added to the aggre-  
 3 gate credits allowable to the taxpayer under  
 4 subsection (a) for all preceding taxable years  
 5 does not exceed \$25,000.

6 “(2) NO DOUBLE CREDIT ALLOWED.—In the  
 7 case of any qualified rural small business which  
 8 places in service a qualified rural investment build-  
 9 ing with respect to which a rural investment credit  
 10 is allowed under section 42A for any taxable year,  
 11 paragraph (1)(A) shall be applied with respect to  
 12 such taxable year by substituting ‘zero’ for ‘\$5,000’.

13 “(c) QUALIFIED RURAL SMALL BUSINESS.—For  
 14 purposes of this section, the term ‘qualified rural small  
 15 business’ means any person if such person—

16 “(1) employed not more than 5 full-time em-  
 17 ployees during the taxable year,

18 “(2) materially and substantially participates in  
 19 management,

20 “(3) is located in a qualifying area, and

21 “(4) submitted a qualified business plan with  
 22 respect to which the rural investment credit agency  
 23 with jurisdiction over such qualifying area has allo-  
 24 cated a portion of the State rural investment ceiling  
 25 for such taxable year under section 42A(g)(7).

1 For purposes of paragraph (1), an employee shall be con-  
2 sidered full-time if such employee is employed at least 30  
3 hours per week for 20 or more calendar weeks in the tax-  
4 able year.

5 “(d) QUALIFIED EXPENDITURES.—For purposes of  
6 this section—

7 “(1) IN GENERAL.—The term ‘qualified expend-  
8 itures’ means expenditures normally associated with  
9 starting or expanding a business and included in a  
10 qualified business plan, including costs for capital,  
11 plant and equipment, inventory expenses, and wages,  
12 but not including interest costs.

13 “(2) ONLY CERTAIN EXPENDITURES INCLUDED  
14 FOR EXISTING BUSINESSES.—In the case of a quali-  
15 fied rural small business with respect to which a  
16 credit under subsection (a) was allowed for a pre-  
17 ceding taxable year, such term shall include only so  
18 much of the expenditures described in paragraph (1)  
19 for the taxable year as exceed the aggregate of such  
20 expenditures for the preceding taxable year.

21 “(e) QUALIFIED BUSINESS PLAN.—For purposes of  
22 this section, the term ‘qualified business plan’ means a  
23 business plan which—

24 “(1) has been approved by the rural investment  
25 credit agency with jurisdiction over the qualifying

1 area in which the qualified rural small business is lo-  
 2 cated pursuant to such agency's rural investment  
 3 plan, and

4 “(2) meets such requirements as the agency  
 5 may specify.

6 “(f) DENIAL OF DOUBLE BENEFIT.—In the case of  
 7 the amount of the credit determined under this section—

8 “(1) no deduction or credit shall be allowed for  
 9 such amount under any other provision of this chap-  
 10 ter, and

11 “(2) no increase in the adjusted basis of any  
 12 property shall result from such amount.

13 “(g) DEFINITIONS AND SPECIAL RULES.—For pur-  
 14 poses of this section—

15 “(1) any term which is used in this section  
 16 which is used in section 42A shall have the meaning  
 17 given such term by section 42A, and

18 “(2) rules similar to the rules under subsections  
 19 (j)(2), (j)(3), and (k) of section 42A shall apply.”.

20 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-  
 21 TION.—Section 38(b) (relating to current year business  
 22 credit), as amended by this Act, is amended by striking  
 23 “plus” at the end of paragraph (31), by striking the period  
 24 at the end of paragraph (32) and inserting “, plus”, and  
 25 by adding at the end the following new paragraph:

1 “(33) the qualified rural small business invest-  
2 ment credit determined under section 42B(a).”.

3 (c) CLERICAL AMENDMENT.—The table of sections  
4 for subpart D of part IV of subchapter A of chapter 1,  
5 as amended by this Act, is amended by inserting after the  
6 item relating to section 42A the following new item:

“Sec. 42B. Qualified rural small business investment credit.”.

7 (d) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to expenditures made in taxable  
9 years beginning after the date of the enactment of this  
10 Act and before the date which is 5 years after such date  
11 of enactment.

12 **SEC. 303. ACCELERATED DEPRECIATION FOR RURAL IN-**  
13 **VESTMENT PROPERTY.**

14 (a) IN GENERAL.—Section 168 is amended by adding  
15 at the end the following new subsection:

16 “(m) PROPERTY IN RURAL INVESTMENT  
17 PROJECTS.—

18 “(1) IN GENERAL.—For purposes of subsection  
19 (a), the applicable recovery period for qualified rural  
20 investment property shall be determined in accord-  
21 ance with the table contained in paragraph (2) in  
22 lieu of the table contained in subsection (c).

23 “(2) APPLICABLE RECOVERY PERIOD FOR  
24 RURAL INVESTMENT PROPERTY.—For purposes of  
25 paragraph (1)—

<b>“In the case of:</b>	<b>The applicable recovery period is:</b>
3-year property .....	2 years
5-year property .....	3 years
7-year property .....	4 years
10-year property .....	6 years
15-year property .....	9 years
20-year property .....	12 years
Nonresidential real property .....	22 years.

1           “(3) DEDUCTION ALLOWED IN COMPUTING  
2           MINIMUM TAX.—For purposes of determining alter-  
3           native minimum taxable income under section 55,  
4           the deduction under subsection (a) for property to  
5           which paragraph (1) applies shall be determined  
6           under this section without regard to any adjustment  
7           under section 56.

8           “(4) QUALIFIED RURAL INVESTMENT PROP-  
9           ERTY DEFINED.—For purposes of this subsection—

10           “(A) IN GENERAL.—The term ‘qualified  
11           rural investment property’ means property  
12           which is property described in the table in para-  
13           graph (2) and which is—

14                   “(i) used by the taxpayer predomi-  
15                   nantly in the active conduct of a trade or  
16                   business within a qualified rural invest-  
17                   ment project,

18                   “(ii) not used or located outside the  
19                   qualified rural investment project on a reg-  
20                   ular basis,

1 “(iii) not acquired (directly or indi-  
 2 rectly) by the taxpayer from a person who  
 3 is related to the taxpayer (within the  
 4 meaning of section 465(b)(3)(C)), and

5 “(iv) not property (or any portion  
 6 thereof) placed in service for purposes of  
 7 operating any facility described in section  
 8 144(c)(6)(B).

9 “(B) EXCEPTION FOR ALTERNATIVE DE-  
 10 PRECIATION PROPERTY.—The term ‘qualified  
 11 rural investment property’ does not include any  
 12 property to which the alternative depreciation  
 13 system under subsection (g) applies, deter-  
 14 mined—

15 “(i) without regard to subsection  
 16 (g)(7) (relating to election to use alter-  
 17 native depreciation system), and

18 “(ii) after the application of section  
 19 280F(b) (relating to listed property with  
 20 limited business use).

21 “(C) SPECIAL RULE FOR INFRASTRUCTURE  
 22 INVESTMENT.—

23 “(i) IN GENERAL.—Subparagraph  
 24 (A)(ii) shall not apply to qualified infra-  
 25 structure property located outside of the



qualified rural investment project if the purpose of such property is to connect with qualified infrastructure property located within such project.

“(ii) QUALIFIED INFRASTRUCTURE PROPERTY.—For purposes of this subparagraph, the term ‘qualified infrastructure property’ means qualified rural investment property (determined without regard to subparagraph (A)(ii)) which—

“(I) benefits the qualifying area infrastructure,

“(II) is available to the general public, and

“(III) is placed in service in connection with the taxpayer’s active conduct of a trade or business within a qualified rural investment project.

Such term includes, but is not limited to, roads, power lines, water systems, railroad spurs, and communications facilities.

“(5) DEFINITIONS.—For purposes of this subsection, any term used in this section which is used in section 42A shall have the meaning given such term by section 42A.”.

1       (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to property placed in service after  
3 the date of the enactment of this Act and before the date  
4 which is 5 years after such date of enactment.

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